

QUANTONG HOLDINGS LIMITED

全通控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8316)

THIRD QUARTERLY RESULTS ANNOUNCEMENT FOR THE NINE MONTHS ENDED 31 DECEMBER 2021

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*This announcement, for which the directors (the “**Directors**”) of Quantong Holdings Limited (the “**Company**” and together with its subsidiaries, the “**Group**”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the “**GEM Listing Rules**”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.*

FINANCIAL RESULTS

The board of Directors (the “**Board**”) hereby presents the unaudited condensed consolidated results of the Group for the nine months ended 31 December 2021, together with the comparative unaudited figures for the corresponding period in 2020 as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three and nine months ended 31 December 2021

	<i>Notes</i>	Three months ended 31 December		Nine months ended 31 December	
		2021 <i>HK\$'000</i> (Unaudited)	2020 <i>HK\$'000</i> (Unaudited)	2021 <i>HK\$'000</i> (Unaudited)	2020 <i>HK\$'000</i> (Unaudited)
Revenue	3	17,264	19,468	29,895	88,306
Cost of services		(14,733)	(28,088)	(32,016)	(107,895)
Gross profit/(loss)		2,531	(8,620)	(2,121)	(19,589)
Other income	4	393	—	3,342	5,458
Administrative expenses		(3,325)	(3,455)	(9,652)	(8,408)
Finance costs	5	(5)	(534)	(53)	(1,078)
Loss before income tax	6	(406)	(12,609)	(8,484)	(23,617)
Income tax expense	7	(40)	—	(40)	—
Loss and total comprehensive expense for the period attributable to the owners of the Company		(446)	(12,609)	(8,524)	(23,617)
Loss per share		<i>HK cents</i>	<i>HK cents</i>	<i>HK cents</i>	<i>HK cents</i>
— Basic and diluted	8	(0.06)	(1.58)	(1.07)	(2.95)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine months ended 31 December 2021

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Merger reserves <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Total <i>HK\$'000</i>
As at 1 April 2021 (Audited)	8,000	82,525	(51,705)	(86,074)	3,118	(44,136)
Loss and total comprehensive expense for the period	<u>–</u>	<u>–</u>	<u>–</u>	<u>(8,524)</u>	<u>–</u>	<u>(8,524)</u>
As at 31 December 2021 (Unaudited)	<u>8,000</u>	<u>82,525</u>	<u>(51,705)</u>	<u>(94,598)</u>	<u>3,118</u>	<u>(52,660)</u>
As at 1 April 2020 (Audited)	8,000	82,525	(51,705)	(56,624)	3,118	(14,686)
Loss and total comprehensive expense for the period	<u>–</u>	<u>–</u>	<u>–</u>	<u>(23,617)</u>	<u>–</u>	<u>(23,617)</u>
As at 31 December 2020 (Unaudited)	<u>8,000</u>	<u>82,525</u>	<u>(51,705)</u>	<u>(80,241)</u>	<u>3,118</u>	<u>(38,303)</u>

NOTES TO THE UNAUDITED FINANCIAL RESULTS

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands on 15 July 2014, as an exempted company with limited liability under the Companies Law (2004 revision) Chapter 22 of the Cayman Islands. The registered office of the Company is located at Windward 3, Regatta Office Park, PO Box 1350, Grand Cayman KY1-1108, Cayman Islands and the head office and principal place of business of the Company is located at Room 502, Tai Tung Building, 8 Fleming Road, Wan Chai, Hong Kong. The Company is an investment holding company and its shares were listed on GEM on 10 August 2015. The Group is principally engaged in the foundation business as a foundation subcontractor in Hong Kong and other construction works in the People's Republic of China (the "PRC").

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

The Group's unaudited condensed consolidated financial statements for the nine months ended 31 December 2021 have been prepared in accordance with the accounting policies, which conform with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), the disclosure requirements of the Hong Kong Companies Ordinance (Chapter 622 of the Laws of Hong Kong) and the applicable disclosure provisions of the GEM Listing Rules.

The preparation of the unaudited condensed consolidated financial statements of the Group for the nine months ended 31 December 2021 is in conformity with the HKFRSs requirements in the use of certain critical accounting estimates. The HKFRSs also require the management to exercise their judgement in the process of applying the Group's accounting policies.

The unaudited condensed consolidated financial statements for the nine months ended 31 December 2021 have not been audited by the Company's independent auditor, but have been reviewed by the audit committee (the "Audit Committee") of the Board.

The unaudited condensed consolidated financial statements for the nine months ended 31 December 2021 have been prepared on the historical cost basis and is presented in Hong Kong Dollars ("HK\$"), which is also the functional currency of the Company. All values are rounded to the nearest thousands except when otherwise indicated.

For the purpose of preparing and presenting the financial information of the unaudited condensed consolidated financial statements for the nine months ended 31 December 2021, the Group has consistently adopted HKFRS issued by HKICPA which are effective for the Group's financial year beginning on 1 April 2021. The Group has not early applied the new and revised HKFRS that have been issued by HKICPA but are yet to be effective.

3. REVENUE AND SEGMENT INFORMATION

The Group's revenue represents amount received and receivable from construction contracts for foundation works in Hong Kong and other construction works in the PRC, which are performed and recognized over time using output method, i.e. based on surveys of work completed by the Group to date.

Operating segment

The Group was principally engaged in the provision of foundation works in Hong Kong and other construction works in the PRC. Information reported to the Group's chief operating decision maker, for the purpose of resources allocation and performance assessment, focuses on the operating results of the Group as a whole, as the Group's resources are integrated and no discrete operating segment financial information is available. Accordingly, no operating segment information is presented.

Geographical information

Substantially all of the Group's non-current assets are located in Hong Kong, based on the location of assets. Therefore, no non-current assets information about geographical location is presented.

The Group's revenue was principally derived from Hong Kong and the PRC, based on the location of the customers.

	Three months ended 31 December		Nine months ended 31 December	
	2021	2020	2021	2020
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	12,290	19,468	24,921	88,306
The PRC	4,974	–	4,974	–
	<u>17,264</u>	<u>19,468</u>	<u>29,895</u>	<u>88,306</u>

4. OTHER INCOME

	Three months ended 31 December		Nine months ended 31 December	
	2021	2020	2021	2020
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Gain on disposal of property, plant and equipment	393	–	2,044	2,504
Gain on early termination of lease	–	–	1,291	–
Government subsidies	–	–	–	2,783
Rental income from leasing machinery	–	–	–	99
Others	–	–	7	72
	<u>393</u>	<u>–</u>	<u>3,342</u>	<u>5,458</u>

5. FINANCE COSTS

	Three months ended 31 December		Nine months ended 31 December	
	2021	2020	2021	2020
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Interest on lease liabilities	5	55	53	163
Interest on loans from directors	–	1	–	219
Interest on loan from a former director	–	44	–	137
Interest on other borrowings	–	434	–	559
	<u>5</u>	<u>534</u>	<u>53</u>	<u>1,078</u>

6. LOSS BEFORE INCOME TAX

	Three months ended 31 December		Nine months ended 31 December	
	2021	2020	2021	2020
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Loss before income tax is arrived at after charging:				
Employee benefit expense (including Directors' remuneration)	1,905	6,169	7,044	20,167
Depreciation of property, plant and equipment	260	359	1,416	3,079

7. INCOME TAX EXPENSE

	Three months ended 31 December		Nine months ended 31 December	
	2021	2020	2021	2020
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Current tax for the period:				
— Hong Kong profits tax	—	—	—	—
— PRC Enterprise Income Tax	40	—	40	—
— Deferred tax	—	—	—	—
	40	—	40	—

No provision for Hong Kong profits tax has been made for the current and prior periods as the group companies which are subject to Hong Kong profits tax either incurred tax losses for the nine months ended 31 December 2021 or have tax losses brought forward to set off with the assessable profit for the nine months ended 31 December 2021.

Under the Law of the PRC on Enterprise Income Tax (the “EIT Law”) and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries of the Group is 25%.

According to the provisions of Caishui [2019] No.13 and Guoshui [2019] No.2, certain PRC subsidiaries of the Group, enjoyed preferential income tax policies for the small and low profit enterprises during the current period.

8. LOSS PER SHARE

The calculation of the basic loss per share attributable to the ordinary equity holders of the Group is based on the following data:

	Nine months ended	
	31 December	
	2021	2020
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Loss		
Loss for the purpose of calculating basic loss per share	<u><u>(8,524)</u></u>	<u><u>(23,617)</u></u>
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purpose of calculating basic loss per share	<u><u>800,000</u></u>	<u><u>800,000</u></u>

Diluted loss per share were the same as basic loss per share as there were no potential dilutive ordinary shares outstanding for the nine months ended 31 December 2021 and 2020.

9. DIVIDEND

The Board does not recommend the payment of any dividend for the nine months ended 31 December 2021 (2020: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review and Outlook

The Group is principally engaged in the foundation works business as a subcontractor in Hong Kong. Its customers principally comprise main contractors and subcontractors. In calculating the contract sum, the Group is normally required to follow the pre-determined schedule of rates according to the specifications of types of works to be done, the necessary construction materials and labour to be used. The Group also engages in the business of other construction work in the PRC, which includes interior fit-out services in automobile industrial parks and installation services of new energy charging piles.

The outbreak of the COVID-19 has a drastic effect on the Hong Kong economy and imposed negative impacts on the construction industry, including supply chain disruptions, workforce shortages due to illness and preventative quarantines and work stoppages due to measures imposed by the Hong Kong Government. The Group's performance was adversely affected by the number of foundation projects undertaken by the Group. During the nine months ended 31 December 2021, the Group recorded gross loss margin of approximately 7.1% as compared to gross loss margin of approximately 22.2% for the nine months ended 31 December 2020.

Despite the unfavourable market conditions such as keen competition due to the growing number of market players, continuously increasing construction costs due to labour shortage, increasingly stringent regulatory controls and rising construction material and operation costs, which adversely affected the Group's gross profit margin, the Directors are of the view that the market conditions of the construction industry will start to improve and consider that with the Group's business presence and good reputation in the market, the Group is well-positioned to compete with its competitors against such challenges that are commonly faced by all industry players. The Group will proactively explore new opportunities to create maximum return to the shareholders of the Company.

The Group aims at developing its business in the new energy automobile industry in the Qinhan Automobile and Auto Parts Industrial Park in Xixian New District in Shaanxi Province, the People's Republic of China by means of establishment in the industrial park and forming strategic partnerships with upstream and downstream enterprises in the industrial park for the manufacturing of new energy automobiles.

On 28 September 2021, an indirect wholly-owned subsidiary of the Company, Shaanxi Gaochuang Yuanwei Energy Limited* (陝西高創遠為能源有限公司) (“**Gaochuang Yuanwei**”), entered into a strategic cooperation agreement with Jiangsu Puya Energy Technology Limited* (江蘇普亞能源科技有限公司) (“**Jiangsu Puya**”), a party independent of and not connected with the Company and its connected persons (as defined in the GEM Listing Rules), to among other things, (i) develop a production line for energy storage products and mobile energy products in an automobile technology industrial park; (ii) provide technological support to the development of products; and (iii) promote the use of new energy battery on motor vehicles and two-wheeled electric bicycles in Xixian New District in Shaanxi Province, the People's Republic of China. The Board is of the view that the new business provides a great opportunity for the Group to diversify its business scope and broaden the Group's income source, leveraging on the trend of “green transportation” and “new infrastructure”.

On 28 January 2022, Gaochuang Yuanwei entered into a memorandum of understanding with Jiangsu Puya, pursuant to which Gaochuang Yuanwei intends to invest in approximately 10% of the new equity interest in Jiangsu Puya by capital injection (the “**Possible Investment**”). As set out in the announcement of the Company dated 12 July 2021, the Group aims to participate in the management and service of the entire industrial chain of new energy vehicles in the development of “new infrastructure”. The Directors consider that the Possible Investment is an opportunity for both parties to conduct in-depth cooperation in the production and manufacturing of new energy battery, production, manufacturing and sale of battery for low-speed electric vehicles, charging piles for automobiles, distributed energy, mobile energy production and manufacture projects, etc.

FINANCIAL REVIEW

Revenue

The Group’s revenue for the nine months ended 31 December 2021 was approximately HK\$29.9 million, representing a decrease of approximately HK\$58.4 million or 66.1% as compared to the revenue for the nine months ended 31 December 2020. The decrease was mainly due to the completion of certain foundation projects during the year ended 31 March 2021 and a decrease in the number of new projects undertaken by the Group.

Cost of Services

The Group’s cost of services decreased from approximately HK\$107.9 million for the nine months ended 31 December 2020 to approximately HK\$32.0 million for the nine months ended 31 December 2021, representing a decrease of approximately HK\$75.9 million or 70.3%. Such decrease was mainly due to a decrease in the number of foundation projects undertaken by the Group.

Gross Loss and Gross Loss Margin

For the nine months ended 31 December 2021, the Group recorded a gross loss of approximately HK\$2.1 million (2020: gross loss of approximately HK\$19.6 million) and the gross loss margin was approximately 7.1% (2020: gross loss margin of approximately 22.2%). Such decrease in gross loss and gross loss margin were due to the cost management measures implemented by the Group in this period.

Administrative Expenses

The administrative expenses increased by approximately HK\$1.3 million or 15.5% from approximately HK\$8.4 million for the nine months ended 31 December 2020 to approximately HK\$9.7 million for the nine months ended 31 December 2021. The higher administrative expenses was mainly due to an increase in the staff costs and professional fees in head office.

Loss and Total Comprehensive Expense Attributable to Owners of the Company

Net loss and total comprehensive expense for the nine months ended 31 December 2021 was approximately HK\$8.5 million (2020: approximately HK\$23.6 million). Such decrease in net loss was mainly due to the reduction in gross loss during the period.

Dividend

The Board does not recommend the payment of dividend for the nine months ended 31 December 2021 (2020: nil).

EVENTS AFTER THE REPORTING PERIOD

On 28 January 2022, Mr. Wong Chun Hung has resigned as an independent non-executive Director, the chairman of the Audit Committee, and a member of each of the remuneration committee of the Board (the “**Remuneration Committee**”) and the nomination committee of the Board (the “**Nomination Committee**”).

Mr. Chow Chun To has been appointed as an independent non-executive Director, the chairman of the Audit Committee, and a member of each of the Remuneration Committee and the Nomination Committee with effect from 28 January 2022.

Save as disclosed in this announcement, there is no other important event affecting the Group since 31 December 2021 and up to the date of this announcement.

OTHER INFORMATION

Directors’ and chief executives’ interest and short positions in the shares, underlying shares and debentures

As at 31 December 2021, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of Securities and Futures Ordinance (the “**SFO**”)) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions), or which are required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or which are required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules, are as follows:

Long positions in the ordinary shares of the Company

Name	Capacity/Nature of interest	Number of shares held/ interested	Percentage of shareholding
Mr. Xing Yuan (<i>Note</i>)	Interest in a controlled corporation	600,000,000	75%

Note:

Mr. Xing Yuan (“**Mr. Xing**”), an executive Director, beneficially owns the entire issued share capital of QUANTONG GROUP HOLDINGS LIMITED (“**Quantong**”). Mr. Xing is deemed, or taken to be interested in all the shares of the Company held by Quantong for the purpose of the SFO. Mr. Xing is the sole director of Quantong.

Long positions in the ordinary shares of the associated corporation

Name	Name of associated corporation	Capacity/Nature of Interest	Number of shares held/ interested	Percentage of shareholding
Mr. Xing Yuan	Quantong	Beneficial owner	100	100%

Save as disclosed above, as at 31 December 2021, none of the Directors and chief executives of the Company had any interests or short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or which were required, pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

Substantial shareholders’ and other persons’ interests and short positions in shares and underlying shares

As at 31 December 2021, the following person/entity (other than the Directors and chief executives of the Company) had or were deemed to have an interest or a short position in the shares or the underlying shares of the Company which would be required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register of the Company required to be kept under Section 336 of the SFO, or who were directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company or any other member of the Group:

Long positions in the ordinary shares of the Company

Name	Capacity/Nature of interest	Number of Shares held/ interested	Percentage of shareholding
Quantong	Beneficial owner	600,000,000	75%
Mr. Fu Yik Lung (<i>Note</i>)	Person having a security interest in shares	600,000,000	75%
	Beneficial owner	200,000	0.025%

Note:

Pursuant to a share charge dated 11 December 2020 executed by Quantong in favour of Mr. Fu Yik Lung, 600,000,000 shares of the Company were pledged by Quantong in favour of Mr. Fu Yik Lung.

Save as disclosed above, as at 31 December 2021, none of the substantial or significant shareholders or other persons, other than the Directors and chief executives of the Company whose interests are set out in the section “Other Information — Directors’ and Chief Executives’ Interests and Short Positions in Shares, Underlying Shares and Debentures” above, had or were deemed to have an interest or a short position in the shares or the underlying shares of the Company which would be required to be disclosed to the Company and the Stock Exchange under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register of the Company required to be kept under Section 336 of the SFO, or who were directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company or any other members of the Group.

SHARE OPTION SCHEME

The Company has adopted the share option scheme (the “**Share Option Scheme**”) on 6 July 2015. No share option has been granted under the Share Option Scheme since its adoption.

COMPETING INTERESTS

During the nine months ended 31 December 2021 and up to the date of this announcement, the Directors, the controlling shareholders of the Company and their respective close associates did not have any business or interest apart from the business of the Group which competes or may compete, directly or indirectly, with the business of the Group or any other conflicts of interests which any such person has or may have with the Group.

DIRECTORS’ SECURITIES TRANSACTIONS

The Company has adopted a code of conduct for dealing in securities of the Company by the Directors on terms no less exacting than the required standard of dealings under Rules 5.48 to 5.68 of the GEM Listing Rules. Having made specific enquiries of all Directors, all Directors confirmed that they have complied with the required standard of dealings and the code of conduct regarding securities transactions by directors adopted by the Company during the nine months ended 31 December 2021.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S LISTED SECURITIES

During the nine months ended 31 December 2021, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s listed securities.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company has applied the principal and code provisions in the Corporate Governance Code (“CG Code”) as set out in Appendix 15 to the GEM Listing Rules as its corporate governance practice. To the best knowledge of the Board, the Company had complied with all applicable code provisions as set out in the CG Code during the nine months ended 31 December 2021.

AUDIT COMMITTEE

The Audit Committee was established on 6 July 2015. The chairman of the Audit Committee is Mr. Chow Chun To, an independent non-executive Director, and other members included Ms. Wong Chi Yan and Mr. Kung Wai Chiu Marco, independent non-executive Directors. The written terms of reference of the Audit Committee are posted on the website of the Stock Exchange and on the Company’s website.

The primary duties of the Audit Committee are mainly to review the financial information and reporting process, internal control procedures and risk management system, audit plan and relationship with external auditors and arrangements to enable employees of the Company to raise, in confidence, concerns about possible improprieties in financial reporting, internal control or other matters of the Company.

The Company has complied with Rule 5.28 of the GEM Listing Rules with three members comprising independent non-executive Directors only and at least one of the members of the Audit Committee is an independent non-executive Director who possesses appropriate professional qualifications or accounting or related financial management expertise.

The Audit Committee had reviewed the unaudited condensed consolidated financial statements of the Group for the nine months ended 31 December 2021 with the management and is of the view that such statements have been prepared in compliance with the applicable accounting standards, the requirements under the GEM Listing Rules and other applicable legal requirements, and that adequate disclosures had been made.

By order of the Board
Quantong Holdings Limited
Xing Yuan
Chairman and Executive Director

Hong Kong, 10 February 2022

As at the date of this announcement, the Board comprises (i) Mr. Xing Yuan (Chairman), Mr. Ji Zhendong, Mr. Lai Yanjun and Ms. Xu Zhi as executive Directors; (ii) Mr. Xing Lei as non-executive Director; and (iii) Mr. Chow Chun To, Mr. Kung Wai Chiu Marco and Ms. Wong Chi Yan as independent non-executive Directors.

This announcement will remain on the website of The Stock Exchange of Hong Kong Limited at www.hkexnews.hk on the “Latest Listed Company Information” page for at least 7 days from the date of its posting and will be published on the Company’s website at www.quantongholdings.com.